Institutional Investors and Stringent Climate Policies

Dr. Roberto Cardinale
Lecturer in Infrastructure Project Management and Finance, University College London (UK)

Dr. Sarah Najm
Lecturer in Economics, King Saud University (KSA)

Motivation: Institutional Investors are an emerging reality

- Institutional investors are potentially a game changer for the energy transition
  - Massive global wealth and diversified portfolios of global assets allocated across various markets
  - Increasingly shifting investments (or intend to do so) from fossil-fuel to renewable energy (Safiullah, Alam et al. 2022)

- However, different institutional investors vary in their investment strategies and corporate objectives
  - State-owned investors may favour investment choices with social externalities aligned with sustainability targets
  - Private investors remain mainly risk-averse and oriented to profit-maximisation

- This implies that they are subjected to different responses to external events
  - Stringent climate policies
  - Energy crises

The literature

- Literature on infrastructure as an asset class
  - Emphasize the search for the stable, long-term inflation adjusted returns above government bonds by different institutional investors (Weber and Alfen, 2010)
  - Does not differentiate between state-owned and private investors

- More specific (but limited) literature on renewable energy infrastructure investment
  - Examines the investment performance, but mainly in an aggregate way, not considering the different profile of each investor
  - Newell & Marzuki (2024) examine the risk-adjusted performance and diversification benefits of listed renewable energy infrastructure globally

Contribution to the literature

- To bridge literature strands by:
  - Analysing how different types of institutional investors have been investing in renewable energy infrastructure
    - Asset management firms
    - Pension funds
    - Sovereign Wealth Fund
    - Multilateral investment banks
  - Explore how each type of institutional investor has adjusted its strategy in response to
    - Stringent climate policies
    - The recent energy crisis
  - Broaden the understanding of how public vs private institutional investors respond to structural and policy factors

Data and methods

- Research on the database Preqin Pro, which allows to collect data on the infrastructure asset class by filtering for the following themes
  - Amount and typology of investor, focus on Europe
  - Infrastructure sector (including renewables)
  - Source of financing: equity, debt
  - Variation across two key turning points in recent years: The Paris Agreement (2015), energy crisis in Europe (2021)

Data and methods – Semi-structured interviews

- Semi-structured interviews with top managers to collect primary data on how different financial institutions have responded to climate policy vs energy crisis

- More specifically
  - Investment attitudes in light of stringent climate policies
  - If the energy crisis has created an opportunity to accelerate the switch to renewables or a return to fossil fuels
  - If environmental sustainability is embedded in corporate mandates

Data and methods – pilot sample

- We have conducted a preliminary (pilot) study, by interacting with leading investors

- The sample consists of
  - 5 of the largest global asset management firms investing in infrastructure
  - 2 pension funds
  - 2 large Sovereign Wealth Funds
  - 2 multilateral development banks
  - 3 leading infra consultancies and research centres

Preliminary pilot findings

- **Asset management firms and pension funds need guarantees on risks through regulatory and market arrangements to invest large capitals in renewable energy**
  - Because they are profit-driven, risk-averse and have not stringent climate targets
  - Slower in responding to stringent climate policies – Paris Agreements, 2015
  - But faster in reinvesting in fossil fuel after the energy crisis due to high returns

- **Some SWFs and MDBs are highly committed to renewable energy investments both directly and indirectly**
  - Because they are less risk averse and have a political mandate
  - They were fast in conforming to stringent climate policies
  - And slower in reinvesting in fossil fuel after the energy crisis
  - Due to the need to respect the political mandate

- **Institutional investors' impact on the energy transition is likely to differ depending on**
  - Their nature (State-owned vs private), size (large vs small), and ways of investing (direct vs indirect)
  - This can be also shown by their different response to external events

Thank you!